

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

IN THE MATTER OF BLACK HILLS/)
NEBRASKA GAS UTILITY COMPANY, LLC)
D/B/A BLACK HILLS ENERGY SEEKING) DOCKET NO. NG____
A PIPELINE REPLACEMENT CHARGE)
FOR BLACK HILLS ENERGY'S RATE AREAS)
ONE, TWO AND THREE (CONSOLIDATED))

Direct Testimony of Don Nordell
Director, Nebraska Business Operations

Pipeline Replacement Charge Application
April 6, 2015

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, POSITION, AND BUSINESS ADDRESS.

A. My name is Don Nordell. I am the Director, Business Operations for Black Hills/Nebraska Gas Utility Company, LLC d/b/a Black Hills Energy (hereafter referred to as "Black Hills Energy"). My business address is 1600 Windhoek Drive, Lincoln, Nebraska, 68512.

Q. WHAT IS YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE?

A. I received a Bachelor of Science in Business Administration from the University of Nebraska in Omaha in 1989. I began my employment with Peoples Natural Gas, division of InterNorth in May of 1980. That business unit was later purchased by UtiliCorp United Inc. in 1985, which later changed the Peoples Natural Gas name to Aquila, Inc. and conducted its business under the "Aquila" or "Aquila Networks" name. Black Hills Corporation purchased Aquila's gas assets in Nebraska effective July 14, 2008. Black Hills/Nebraska Gas Utility Company, LLC conducts business in Nebraska as "Black Hills Energy."

While employed with Black Hills Energy, and its predecessors-in-interest, I have held numerous positions. I completed my thirty-fourth year of employment in 2014 with the Company. During the first eight years of my career, I held several field operating positions including meter reader, service technician, and consumer sales representative. In November 1988, I was promoted as the Local Manager of our Schuyler, NE operations. During the next twenty-six years, I have held various management positions, including region sales manager, customer service

1 manager, customer service director, and region operations manager. All of these
2 positions have provided me an opportunity to expand my operational experience
3 and interact within our local customers and community leaders. All of my
4 employment has occurred within the State of Nebraska.

5 **Q. WHAT ARE THE PRINCIPLE DUTIES IN YOUR PRESENT POSITION?**

6 A. As the Director of Business Operations for Nebraska, I am responsible for the
7 general business operations for the state. Among other duties, I am responsible
8 for managing the cost of the state operations, complying with legal and regulatory
9 requirements, and supporting the strategic direction of Black Hills Energy in
10 Nebraska. The principle duties and responsibilities include network asset
11 management decisions, establishing operational goals, interfacing with functional
12 partners supporting our state operations, partnering with Black Hills Energy's
13 Human Resources department in dealing with employee and labor relations
14 issues, and overseeing state operational support areas, such as operations
15 compliance, appliance technical training, measurement, and corrosion.

16 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

17 A. I will address: (a) the proposed recovery of costs for projects listed in Black Hills
18 Energy's April 6, 2015 Pipeline Replacement Charge application, and (b) provide
19 an explanation of the process, policies, and procedures used by Black Hills
20 Energy to determine the projects eligible for the Pipeline Replacement Charge
21 application.

22 **Q. ARE YOU SPONSORING ANY TESTIMONY ATTACHMENTS?**

23 A. Yes. I am sponsoring Attachment Nos. DJN -1 and DJN-2.

The Attachments to my testimony are as follows:

Attachment No.DJN-1: BHC Capitalization Policy

Attachment No.DJN-2 Technical Standards: Project Capital Allocation
Prioritization Model - Gas

II. PIPELINE REPLACEMENT CHARGE PROJECTS

Q. WHAT TYPES OF PIPELINE REPLACEMENT CHARGE PROJECTS ARE INCLUDED IN THIS APPLICATION?

A. Black Hills Energy included projects as permitted in the State Natural Gas Regulation Act (“Act”) section 66-1802(6). *Neb. Rev. Stat. § 66-1802(6)*.

In accordance with the Act, Black Hills Energy selected eligible infrastructure system replacements from its jurisdictional utility plant projects that:

(a) Do not increase revenue by directly connecting the infrastructure system replacement to new customers;

(b) Are in service and used and required to be used;

(c) Were not included in the jurisdictional utility's rate base in its most recent general rate proceeding; and

(d) May enhance the capacity of the system but are only eligible for infrastructure system replacement cost recovery to the extent the jurisdictional utility plant project constitutes a replacement of existing infrastructure.

For this application, Black Hills Energy proposes to include Jurisdictional utility plant projects that it completed from July 1, 2013 through January 31, 2015. The

1 primary purpose of those projects relate to government mandated line relocations
2 and system integrity replacements.

3 **Q. HOW DID BLACK HILLS ENERGY COMPILE THE ELIGIBLE**
4 **PIPELINE REPLACEMENT CHARGE APPLICATION PROJECTS?**

5 A. Black Hills Energy extracted all Plant Additions and Retirements excluding
6 General Plant accounts for this Application from the Company's Power Plant
7 Property System. Black Hills Energy then performed a series of sorting processes
8 to eliminate ineligible projects. All capital projects are identified in Black Hills
9 Energy's accounting system as "Specific" or "Blanket" projects. In addition, all
10 Plant Additions and Retirements are assigned to a Work (Project) Order Number.
11 Pipeline Replacement Charge projects are listed in the exhibits by one of these
12 categories.

13 **Q. WHAT IS THE DIFFERENCE BETWEEN "BLANKET PROJECTS" AND**
14 **"SPECIFIC PROJECTS"?**

15 A. "Blanket" projects are capital projects that will (i) occur daily, (ii) cost less than
16 \$10,000, and (iii) are not tracked by individual project numbers. The blanket
17 numbers are assigned to a specific town plant. Nebraska Operations utilizes 134
18 separate town codes to track capital projects in its accounting system. The
19 blanket code identifies the expenditure as a service line, main replacement, or
20 meter set replacement, and it classifies the expense as a replacement, retirement,
21 or new project. After a blanket project is completed, the project is identified in
22 Black Hills Energy's accounting system and the actual cost is recorded on the
23 Company's books and records.

1 “Specific” projects normally cost over \$10,000, project duration is longer than a
2 few days, and the project description describes the type of work being completed.
3 Specific projects include replacing large sections of deteriorating gas main,
4 rebuilding district regulator stations, updating obsolete odorizer systems, and
5 relocating mains for municipal improvement projects. After the project is closed
6 by the responsible region manager, the actual cost is recorded on the Company’s
7 books and records.

8 **Q. DOES THE PIPELINE REPLACEMENT CHARGE THAT BLACK HILLS**
9 **ENERGY IS REQUESTING CONTAIN AMOUNTS INTENDED FOR**
10 **“GROWTH” PROJECTS?**

11 A. No. Neb. Rev. Stats. §§ 66-1802(6), 66-1865 and 66-1866 of the State Natural
12 Gas Regulation Act appear to prohibit inclusion of significant investment in
13 “growth” projects in a Pipeline Replacement Charge application. Accordingly,
14 Black Hills Energy’s application was prepared with the purpose of removing
15 capital expenditure projects that are related to “growth” projects. The Pipeline
16 Replacement Charge Application focuses on and intends to include only
17 “integrity” projects.

18 **Q. WHAT IS THE DIFFERENCE BETWEEN “INTEGRITY” AND**
19 **“GROWTH” PROJECTS?**

20 A. Integrity projects are generally defined as line relocations, line replacements, and
21 other non-revenue producing investments required to maintain the overall natural
22 gas distribution system. Government mandated projects under the pipeline safety

1 act are included under “integrity” projects. These projects are intended to
2 enhance the integrity of Black Hills Energy’s natural gas distribution system.

3 On the other hand, “growth” projects are projects such as adding new customers
4 by piping a new subdivision for the expanding areas of Sarpy County, Lincoln, or
5 elsewhere on our system. Black Hills Energy views “growth” projects as distinct
6 and different from “integrity” projects.

7 Black Hills Energy’s information system records a project as either an “integrity”
8 project or a “growth” project, but not both. While it is true that a particular
9 “integrity” project, such as a replacement line may have some component of
10 growth to it, the primary purpose of an “integrity” project is for system reliability,
11 safety, and integrity. A “growth” project intends to “grow” the system and the
12 purpose is to serve new natural gas customers in that growth area. Both types of
13 capital investment are required by Black Hills Energy.

14 **Q. HOW DOES BLACK HILLS ENERGY PRIORITIZE CAPITAL**
15 **INTEGRITY PROJECTS?**

16 A. There are several types of integrity projects that are prioritized, including
17 government mandated relocations, system integrity replacements, system integrity
18 capacity improvements, and replacement of worn and outdated tools and
19 equipment. Black Hills Energy uses planning resources, operation and
20 maintenance manuals, and operating standards to prioritize its capital
21 expenditures. For example, the Black Hills Energy’s Gas Technical Standards
22 provides managers an objective way to evaluate the replacement criteria for each
23 project. This project rating procedure is an important factor in evaluating the

1 capital budget requirements from year to year, and has been used in all of Black
2 Hills Energy's service territories for years.

3 **Q. DOES BLACK HILLS ENERGY FOLLOW DEPARTMENT OF**
4 **TRANSPORTATION AND PIPELINE SAFETY REQUIREMENTS WHEN**
5 **CONSIDERING ITS PIPELINE REPAIR AND REPLACEMENT**
6 **REQUIREMENTS?**

7 A. Yes. Black Hills Corporation and Black Hills Energy, and its predecessors-in-
8 interest have been providing natural gas service for decades. Accordingly, Black
9 Hills Energy applies its collective knowledge, training, and experience to comply
10 with the federal, state, and local requirements for maintaining its distribution
11 system. To that end, Black Hills Energy and its engineering and legal
12 departments in cooperation with Black Hills Energy's network operations
13 departments have prepared and adopted several operating manuals and standards
14 related to pipeline safety and other natural gas distribution requirements. For
15 example, all Black Hills Energy Gas operations in Nebraska, Kansas, Iowa,
16 Colorado and Wyoming adhere to the following industry required or approved
17 requirements:

18 **MANUALS & STANDARDS**

- 19 1. **O&M Manual:** Written plan of required practices for operating and
20 maintaining a gas pipeline.
- 21 2. **Gas Technical Standards:** Contains design, measurement and technical
22 standards that are applicable to various operating functions, such as, odorizer

and district regulator design, roadway permits, meter testing standards, and meter sizing specifications.

3. **Gas Material Standards Manual:** Gas material standards approved for company-wide use at this time.

4. **Gas Emergency Plan Manual:** The Company's written emergency plan procedures to minimize the hazards resulting from a gas pipeline emergency. Emergency response action is directed toward protecting people first and then property.

Q. WHICH PORTIONS OF BLACK HILLS ENERGY'S OPERATING AND STANDARDS MANUALS RELATE MORE DIRECTLY ON THE PROJECTS INCLUDED IN THE PIPELINE REPLACEMENT CHARGE APPLICATION?

A. Although all of the manuals relate to maintaining a safe and reliable natural gas distribution system, the Black Hills Energy's Gas Technical Standards sets forth the standards for Project Capital Allocation Prioritization Model – Gas. This Technical Standard applies to all capital projects, and was followed for the projects included in Black Hills Energy's Pipeline Replacement Charge application.

Gas Technical Standard No. G-PN1002, which is included as Attachment DJN-2 establishes categories and rankings needed to prioritize allocation of capital for system improvements. All proposed Black Hills Energy projects requiring funding must be submitted in one of five categories:

- Type A: Government Mandated Relocations
- Type B: System Integrity – Replacements
- Type C: System Growth
- Type D: System Integrity – Capacity
- Type E: Tools/Equipment/Other

The project costs included in the Pipeline Replacement Charge application relate to projects that have been evaluated in accordance with the above-stated standards and operating requirements.

Q. WHAT TYPE OF PIPELINE REPLACEMENT CHARGE PROJECTS WERE INCLUDED IN THIS APPLICATION?

A. As shown in Schedule 1 in Exhibit C of the Application, Black Hills Energy seeks a Pipeline Replacement Charge, which increases total state plant in service by \$11,029,480 relating to “integrity” related projects completed from July 1, 2013 through January 31, 2015. The additional state total plant includes investment of \$11,029,457 of additional Jurisdictional rate base. The total State revenue deficiency is \$1,866,098 while the Jurisdictional component is \$1,866,094. These Pipeline Replacement Charge projects meet the requirements outlined in Neb. Rev. Stats. §§ 66-1802, 66-1866 and 66-1867.

Black Hills Energy’s Pipeline Replacement Charge projects, like all other Black Hills Energy capital projects, are monitored on a monthly basis for costs associated with each project and related completion dates.

1 **Q. BOTH THE STATE NATURAL GAS REGULATION ACT AND THE**
2 **COMMISSION SET FORTH SEVERAL REQUIREMENTS RELATED TO**
3 **RECOVERY OF INVESTMENT IN ELIGIBLE PROJECTS INCLUDED**
4 **IN A PIPELINE REPLACEMENT CHARGE. DOES THE BLACK HILLS**
5 **ENERGY APPLICATION COMPLY WITH THOSE REQUIREMENTS?**

6 A. Yes. Neb. Rev. Stat. § 66-1802 (14) of the Act defines Jurisdictional Utility
7 projects to include the following types of projects:

8 (a) Mains, valves, service lines, regulator stations, vaults, and other pipeline
9 system components installed to comply with state or federal safety requirements
10 as replacements for existing facilities;

11 (b) Main relining projects, service line insertion projects, joint encapsulation
12 projects, and other similar projects extending the useful life or enhancing the
13 integrity of pipeline system components undertaken to comply with state or
14 federal safety requirements; and

15 (c) Facility relocations required due to construction or improvement of a highway,
16 road, street, public way, or other public work by or on behalf of the United States,
17 this state, a political subdivision of this state, or another entity having the power
18 of eminent domain, if the costs related to such relocations have not been
19 reimbursed to the jurisdictional utility. *Neb. Rev. Stat. § 66-1802(14).*

20 In addition, Neb. Rev. Stat. § 66-1867(2) of the Act states that when a
21 jurisdictional utility governed by this section files an application with the
22 commission seeking to establish or change any infrastructure system replacement
23 cost recovery charge rate schedules, it shall submit to the commission with the

1 application proposed infrastructure system replacement cost recovery charge rate
2 schedules and supporting documentation regarding the calculation of the proposed
3 infrastructure system replacement cost recovery charge rate schedules, including
4 (a) a list of eligible projects, (b) a description of the projects, (c) the location of
5 the projects, (d) the purpose of the projects, (e) the dates construction began and
6 ended, (f) the total expenses for each project at completion, and (g) the extent to
7 which such expenses are eligible for inclusion in the calculation of the
8 infrastructure system replacement cost recovery charge. *Neb. Rev. Stat. § 66-*
9 *1866(2).*

10 Black Hills Energy Pipeline Replacement Charge application, exhibits, and work
11 papers contain several documents identifying the information requested by the
12 Act and Commission. The information found in those documents supports the
13 Pipeline Replacement Charge requested by Black Hills Energy in its application.

14 **Q. PLEASE PROVIDE AN OVERVIEW OF THE CATEGORIES AND**
15 **PROJECTS CONTAINED IN EXHIBIT C AND THE WORK PAPERS OF**
16 **THE PIPELINE REPLACEMENT CHARGE APPLICATION.**

17 A. Attachment JSK-1 included with the Direct Testimony of Jason Keil for Black
18 Hills Energy is divided into separate schedules to identify the eligible “Blanket”
19 projects and eligible “Specific” projects. Black Hills Energy’s “Work Orders” are
20 categorized by a “Project Type”. The final Plant Additions and Retirements
21 included in Black Hills Energy’s Pipeline Replacement Charge application are
22 based on Plant Additions and Retirements charged to the following Project Types:

- 23 • DIUMS – Distribution Capital, Integrity, Underground, Mains, Specific

- DIUWB – Distribution Capital, Integrity, Underground, Customer Work or Services, Blanket
- DIUMB – Distribution Capital, Integrity, Underground, Mains, Blanket
- DIOSS – Distribution Capital, Integrity, Overhead, System Replacement, Specific
- DIUSS – Distribution Capital, Integrity, Underground, System Replacement, Specific
- DCBSI – Distribution Capital, Blanket System Improvement Project
- DIMSS – Distribution Capital, Integrity, New Customer, System DCSSI-Distribution Capital, Specific System Integrity Projects
- DCBSI- Distribution Capital, Blanket System Improvement Projects

The Direct Testimony of Mr. Jason Keil discusses various pieces of information included in Exhibit C of the application.

For example, Mr. Keil notes that the Plant Additions and Retirements were split between Jurisdictional (J) and Non-jurisdictional (NJ) based on the State column identifier in the extracts and a review of the final Specific Work Orders included in the application. Any record in the extract with a State equal to “State - Nebr Gas Dist-Rate Area 4” was labeled “NJ,” or non-jurisdictional. This step removes any investments relating to large volume, unregulated customers, since those customers all have rates set by contracts. If it was determined that any of the final Specific Work Orders included in the filing could be associated with Black Hills Energy’s non-jurisdictional customers, the amount for the Specific Work Order

1 was labeled “NJ” and excluded from this filing. Black Hills Energy proposes to
2 exclude those customers from the System Replacement Surcharge.

3 **Q. DOES EXHIBIT C TO THE PIPELINE REPLACEMENT CHARGE**
4 **INCLUDE A PROJECT LIST AND DESCRIPTION?**

5 A. Yes, a list and general description of each project is given as well as the project
6 number that has been assigned to it.

7 **Q. IS THE LOCATION OF EACH PROJECT GIVEN?**

8 A. Yes. The location information for each project is provided either in the project
9 description or in the details provided with each project number.

10 **Q. WHERE IS THE “PURPOSE” OF EACH PROJECT FOUND?**

11 A. The “purpose” of each project is found in the definitions of each “priority code”.
12 For example, “A” priority is for any government-mandated line relocation. The
13 prioritization methodology is provided in my Direct Testimony above. There are
14 too many projects to go into great length in narrative testimony. However, the
15 purpose for all projects is for the “integrity” of the system. Black Hills Energy
16 incorporates by reference a more expanded purpose statement for each individual
17 project, and is also ready, willing and able to provide a more detailed description
18 of individual projects upon request.

19 **Q. IS THERE A START-DATE PROVIDED FOR EACH PROJECT?**

20 A. Yes.

21 **Q. ARE COMPLETION DATES PROVIDED FOR EACH PROJECT?**

22 A. Yes.

23 **Q. ARE ACTUAL COSTS PROVIDED FOR EACH PROJECT?**

1 A. Yes.

2 **Q. ARE THE PROJECT FINANCING DETAILS GIVEN?**

3 A. All projects are financed by internally generated funds, so there was no need to
4 include this column in the Exhibit C schedules.

5 **Q. WERE ANY PROJECTS FINANCED WITH “CIAC” FUNDS**
6 **(CONTRIBUTIONS IN AID OF CONSTRUCTION)?**

7 A. No. There are very few “integrity” projects with CIAC funding because of the
8 purpose of the project relates to safety and not to growth.

9 **Q. DID BLACK HILLS ENERGY MAKE ADJUSTMENTS TO**
10 **DEPRECIATION AND ACCUMULATED DEPRECIATION?**

11 A. Yes. The Direct Testimony of Mr. Keil explains this adjustment.

12 **Q. DID BLACK HILLS ENERGY MAKE ADJUSTMENTS TO REVENUES?**

13 A. No. As explained above, there is no customer growth and therefore no expected
14 revenue increase associated with these projects.

15 **Q. DID BLACK HILLS ENERGY MAKE ADJUSTMENTS FOR EXPENSES?**

16 A. Yes. Black Hills Energy did not include costs in this application that relate to non-
17 regulated projects, growth projects, CWIP, or integrity projects that do not qualify
18 for recovery under the Pipeline Replacement Charge application.

19 **Q. DID BLACK HILLS ENERGY MAKE ADJUSTMENTS FOR AUDIT?**

20 A. Yes. The Direct Testimony of Mr. Keil explains this adjustment.

21 **Q. DID BLACK HILLS ENERGY MAKE ADJUSTMENT FOR BILLING**
22 **DETERMINANTS?**

1 A. No. These projects are not revenue producing capital investments, so no
2 adjustment was made to billing determinants. Thus, no growth in billing
3 determinants would be available or appropriate.

4 As the Direct Testimony of Mr. Keil explains, the totals Plant Additions and
5 Retirements included in Black Hills Energy's Pipeline Replacement Charge
6 application are the result of a two-step process.

7 My team of managers stands ready to provide additional data or explanation as
8 needed to validate the specific purpose and necessity of the individual projects.

9 **Q. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?**

10 A. Yes it does.